



NABE Policy Survey

June 14, 1988

Economists Expect Smaller Trade Deficit, Trade-Policy Obstacles Remain

This report presents the results of a survey on economic policy issues made by a panel of more than 200 business economists. The survey was made during late May. The Economic Policy Survey is one of three surveys taken during each calendar quarter by NABE; the other surveys are the Industrial Outlook (taken during the 3rd month of the quarter) and the Macroeconomic Forecast (taken immediately after the Commerce Department's preliminary NIPA estimates in the 1st month of the quarter).

Jay N. Woodworth
Vice President, NABE
Vice President and
Senior Domestic Economist
Bankers Trust Company

Richard D. Rippe
NABE Public Affairs Committee
Senior Vice President and
Economist
Dean Witter Reynolds

Survey Highlights

- * NABE's panel of business economists expect the U.S. foreign trade deficit to fall to about \$150 billion this year and \$125 billion in 1989, compared with a peak of \$171 billion during 1987. That's the good news; the bad news is that current economic policies are preventing a more rapid decline in that deficit.
- * The dollar is seen as the major factor behind the increase in exports during the past two years. The principal cause of the remaining deficit is the difference in fiscal and monetary policies between the United States and its major trading partners.
- * About one-third of the economists perceive the quality of American products to be a significant problem in the U.S. trade performance, with more than 80 percent believing quality is at least a small difficulty. Concern is greatest about the quality of American-made consumer durables.
- * More than four-fifths of the economists surveyed point to substantial market barriers in Japan. Other countries of special concern are South Korea and Taiwan. Bilateral negotiations with these nations are viewed as the most promising way to reduce trade restrictions. About 70 percent of the economists also believe that neither Japan nor Germany has made the necessary adjustments to reduce world trade and capital flow imbalances.

The results of the NABE's Economic Policy Survey were released on Friday, June 10 in San Francisco and were coordinated with NABE's special two-day seminar on "Internationalization of the U.S. Economy: Business Prospects in the Pacific Rim." A number of special questions were designed for this survey (which helped set new records for the length--to the NABE members who endured the questioning, thanks!).

Special Questions on International Economic Policy

The NABE panel estimates the U.S. Merchandise Trade Deficit will improve to about \$150 billion in 1988 and \$125 billion next year, down from last year's actual \$171 billion deficit. Interestingly, nearly two-thirds of NABE's economists believe that macroeconomic policies in the U.S. and its trading partners are the principal cause of the U.S. trade deficits--and these macro policies are not expected to go away soon. Only 8 percent pin the major blame on trade barriers in various countries.

Table 1

Merchandise Trade Estimates

1987 Actual	\$ -171 Billion
1988 Est.	-147
1989	-125

Note: Forecasts are arithmetic means

With the provisions of the Omnibus Trade Bill in mind, the panel was asked to rate (from 0 as very bad policy to 10 as very good policy) each of several points in the bill. The NABE panel had even more difficulty with the Trade Bill than did President Reagan, whose veto was apparently driven mainly by the objection to the plant-closing provision. The NABE panel took a dim view of the plant-closing provision, too (giving it a score of only 4.2, just below "fair"), but the panel thought even less of the proposed changes to Sections 201 and 301 that would tighten rules and cut down on Presidential discretion to waive determinations or assess penalties.

By contrast, the NABE panel gave its clear endorsement to measures that would open up or liberalize international trade, even if it meant that the United States would move first and without guarantee of reciprocity. To illustrate, the suggestion that drew the strongest support was to reduce and eventually eliminate (domestic and trade) policies that distort agricultural production, prices and market-access. Another was the identify and eliminate restrictions on foreign direct investment, including exchange controls, domestic-content rules, technology-transfer requirements, etc.

Table 2

Appraisal of the Omnibus Trade Bill and Trade Initiatives
(Mean Scores, from 0 to 10 [=Very Good])

Tighten 201 Definition of injury from imports	4.0
Remove Presidential discretion on 201 cases	2.2
Change rules so dumping is easier to determine	4.0
Ease rules so more countervailing duties can be applied	4.2
Remove Presidential discretion on 301 cases	2.2
Reduce (& in time eliminate) agric. barriers	7.9
Require retaliation where large bilateral trade surpluses are run (Gephardt provision)	1.5
Require registration of fgn. investments in U.S.	3.9
Eliminate restrictions on fgn. direct investment	6.9
Put GATT negotiations on a "fast track" approval process in U.S. Congress (no amending)	7.2
Liberalize Trade in services	6.3
Establish & Protect Intellectual Prop. rights	5.8
Require 60-day notice of plant closings	4.2

Taking a longer-term perspective, slightly over one-half of the economists believe that Japan will be the dominant Asian economic power by the middle of the next century. Interestingly, 46 percent believe the People's Republic of China will hold that position. The majority of economists also believe that international trade in the 21st century will be characterized by a number of regional common markets (such as the European Economic Community).

Other findings of the special international policy questions are summarized on the first two pages of the charts.

Inflation Measures

We asked the panel for views on the relative usefulness of various indicators as measures of inflation and inflationary expectations.

Table 3

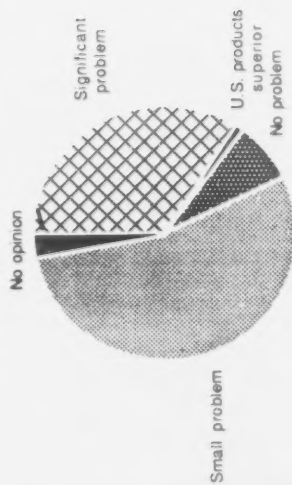
Reliable Measures of Inflation?
(Percent Responding of 208 total)

	<u>Very Useful</u>	<u>Useful</u>	<u>Neutral</u>	<u>Misleading</u>	<u>No Opinion</u>
Commodity Prices	16	52	11	20	1
Int'l Value of \$	10	56	18	14	2
Shape of Yield Curve	15	48	17	13	7

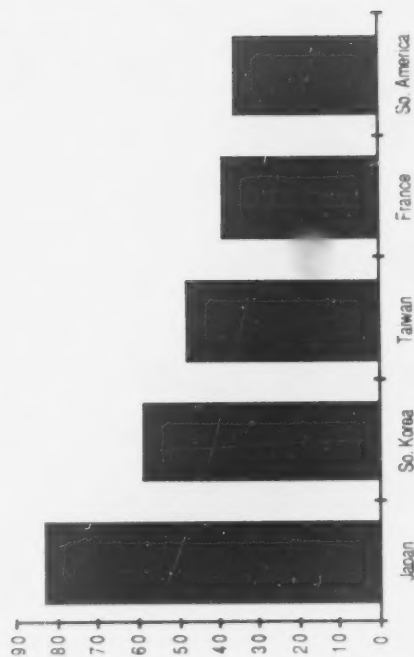
A clear majority (73 percent) of the economists believe the minimum wage bill under consideration in Congress does not constitute sound economic policy, although slightly more than one-half expect such a bill to become law this year. Many economists would expect significant increases in the minimum wage to cause a reduction in employment among unskilled workers, as well as contribute to higher wage and price inflation.

SPECIAL INTERNATIONAL TRADE ISSUES 1

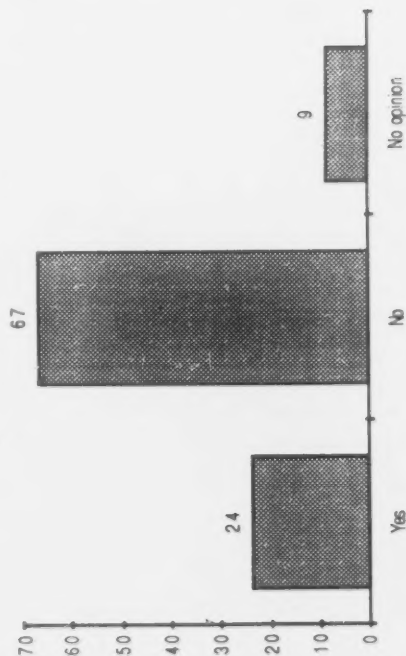
IS U.S. PRODUCT QUALITY A PROBLEM?
(Percent of economists reporting)



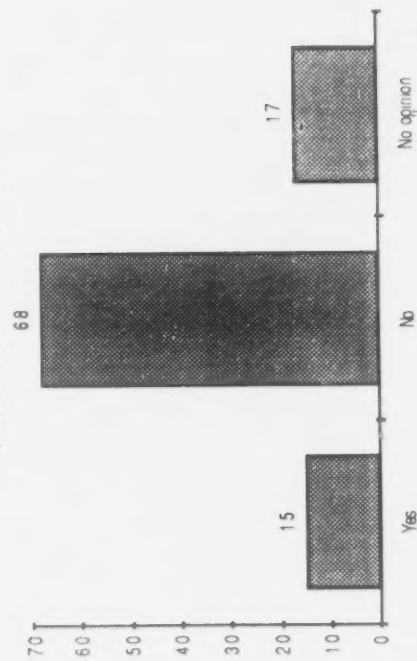
COUNTRIES WITH SIGNIFICANT TRADE BARRIERS
(Percent of economists reporting)



HAS JAPAN MADE SUFFICIENT POLICY ADJUSTMENTS?
(Percent of economists responding)

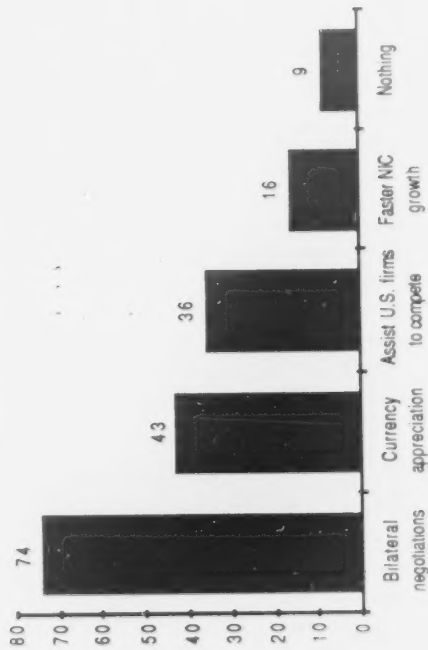


HAS GERMANY MADE SUFFICIENT POLICY ADJUSTMENTS?
(Percent of economists responding)

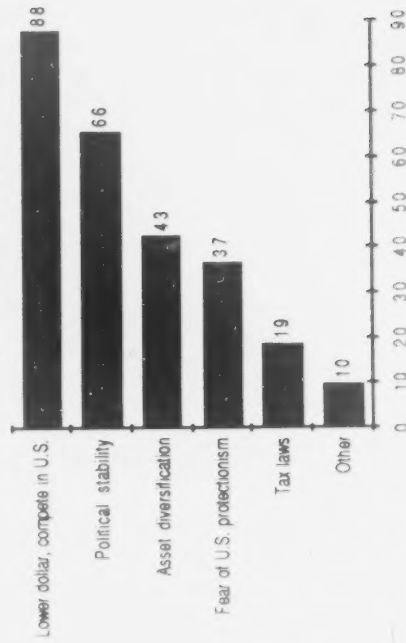


SPECIAL INTERNATIONAL TRADE ISSUES 2

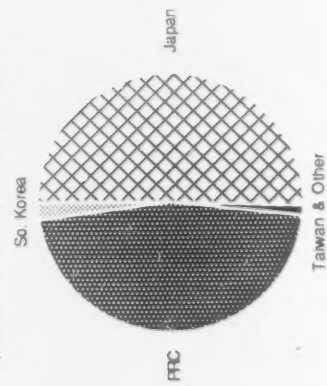
POLICIES FOR U.S. TRADE DEFICITS WITH ASIAN NICs
(Percent of economists endorsing)



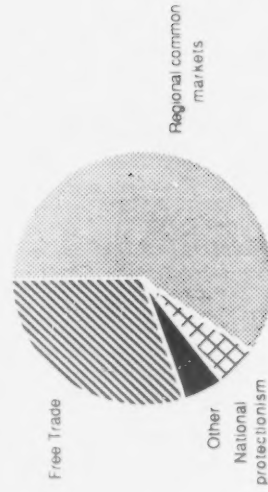
REASONS FOR INCREASED DIRECT FOREIGN INVESTMENT IN U.S.
(Percent of economists reporting)



DOMINANT ASIAN ECONOMIC POWER BY MIDDLE OF 21st CENTURY
(Percent of economists expecting)

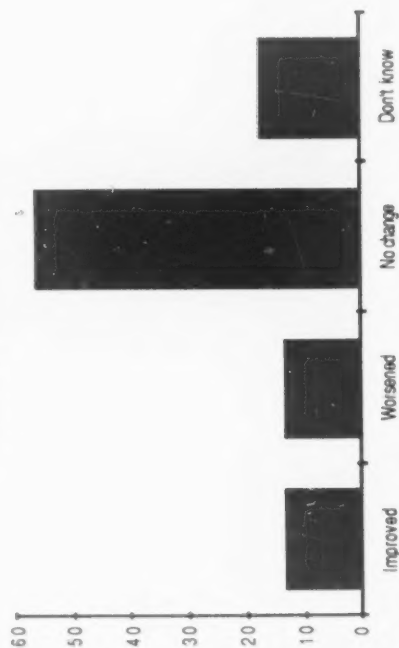


DOMINANT TRADING SYSTEM IN 21st CENTURY
(Percent of economists expecting)

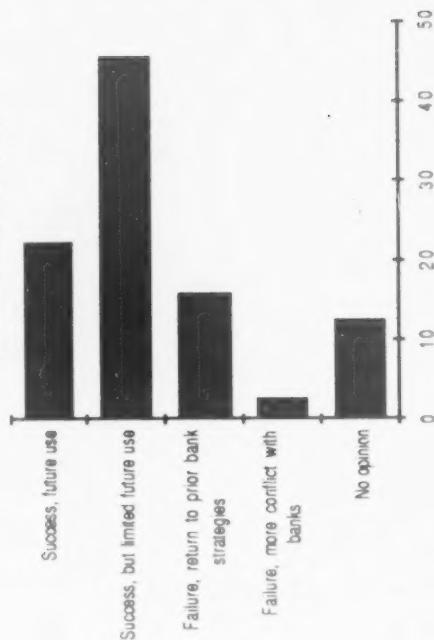


LDC DEBT

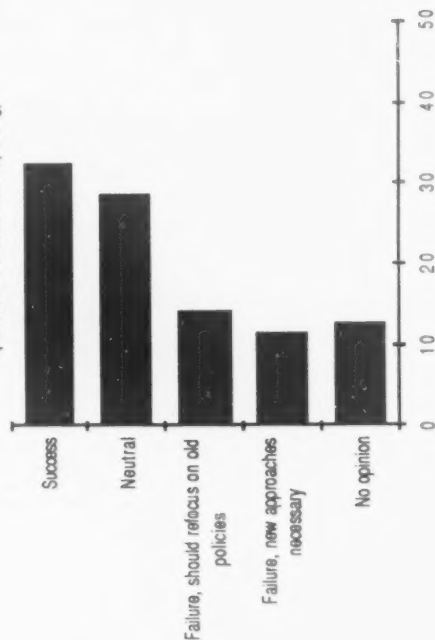
HOW HAS THE LDC DEBT PROBLEM CHANGED IN LAST 3 MONTHS?
(Percent of economists reporting)



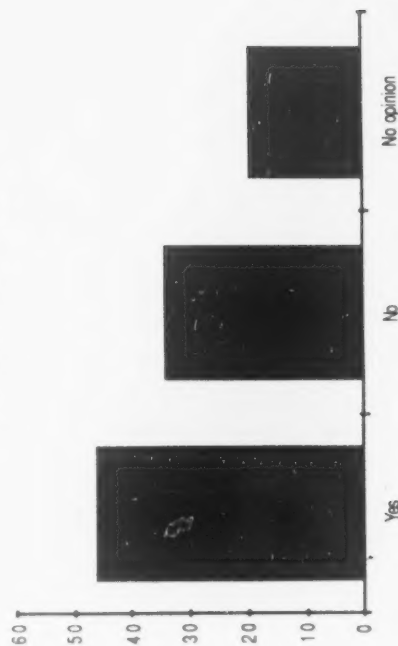
HOW SHOULD MEXICO VIEW DEBT SWAP?
(Percent of economists reporting)



HOW SHOULD BANKS VIEW MEXICO DEBT SWAP?
(Percent of economists reporting)

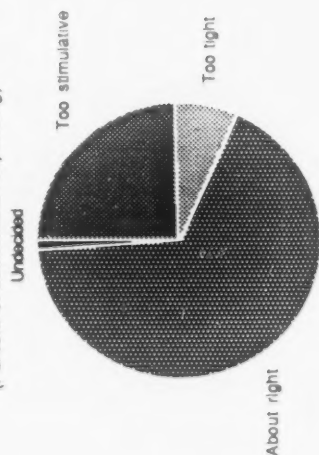


DO YOU EXPECT OTHER LDC COUNTRIES TO ATTEMPT SIMILAR PLANS?
(Percent of economists reporting)

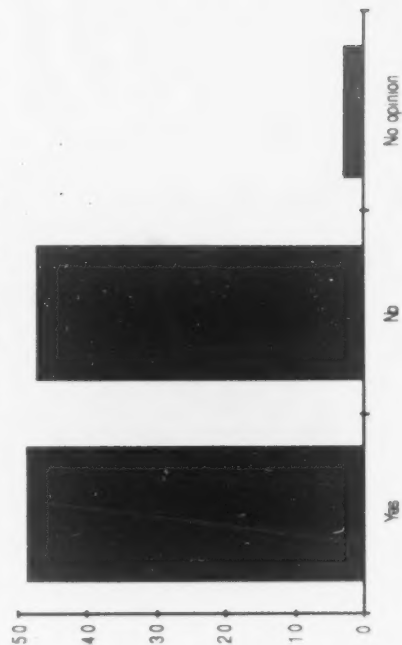


MONETARY POLICY

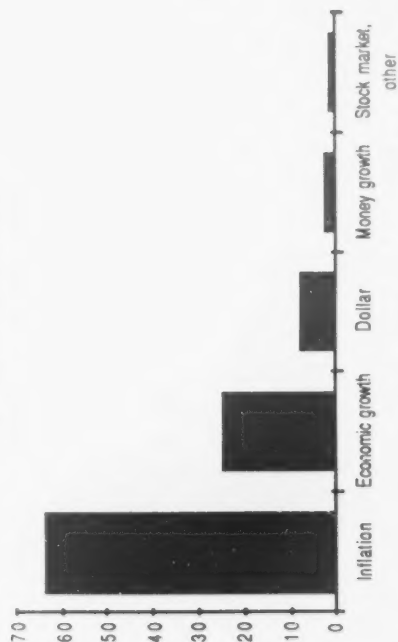
HOW WOULD YOU JUDGE RECENT MONETARY POLICY?
(Percent of economists responding)



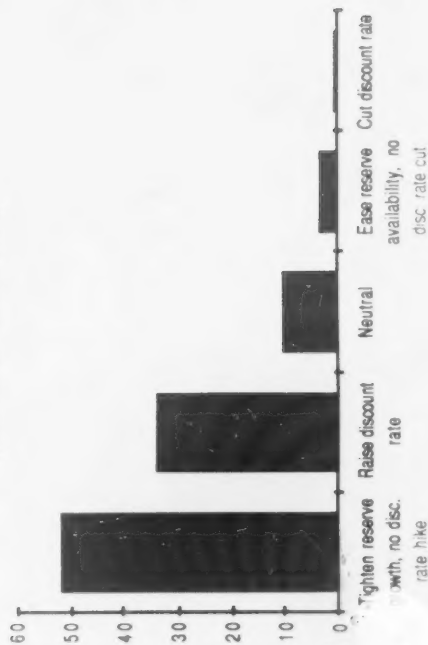
IS RECENT MONEY GROWTH A GOOD INDICATOR OF
MONETARY POLICY
(Percent of economists responding)



KEY FACTOR AFFECTING FED POLICY IN NEXT 6 MONTHS
(Percent of economists expecting)

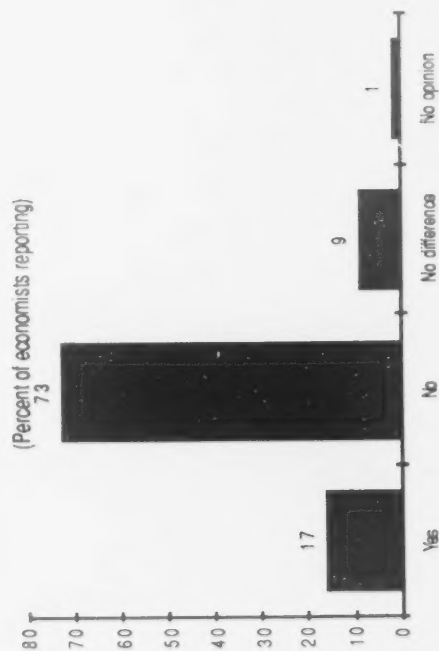


FED POLICY STEPS OVER NEXT 6 MONTHS
(Percent of economists expecting)

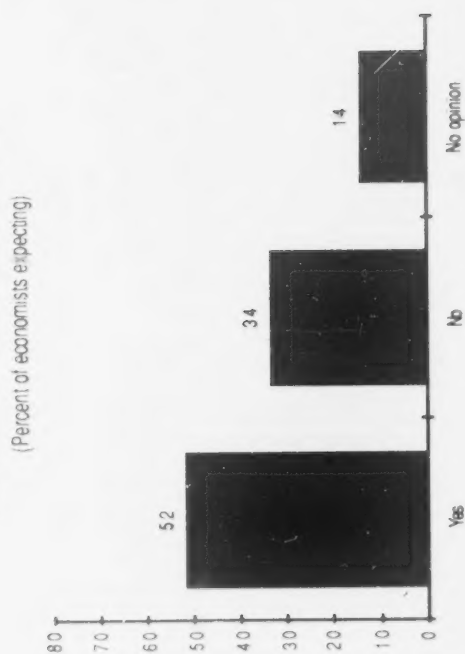


MINIMUM WAGE

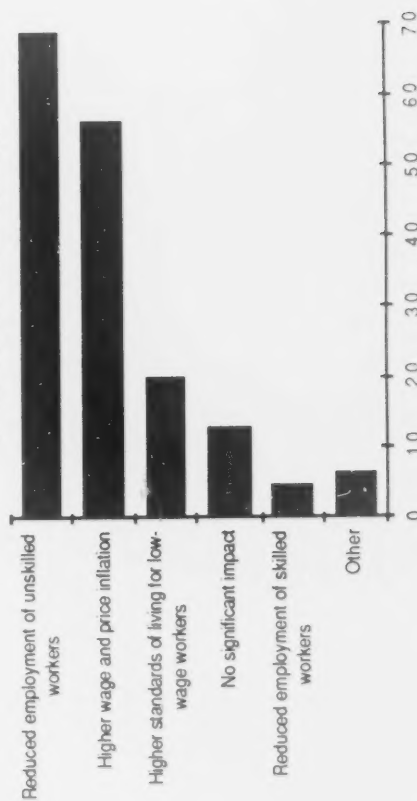
IS MINIMUM WAGE BILL SOUND ECONOMIC POLICY?



WILL A MINIMUM WAGE BILL PASS IN 1988?



IMPACT OF INCREASES IN MINIMUM WAGE
(Percent of economists reporting)





NABE Policy Survey

October 7, 1988

Business Economists Expect George Bush to be Elected President; Prefer Bush's Economic Policies

This report presents the results of a survey on economic policy issues made by a panel of nearly 300 business economists in mid-September. The Economic Policy Survey is one of three surveys taken during each calendar quarter by NABE; the other surveys are the Industrial Outlook (normally taken during the 3rd month of the quarter) and the Macroeconomic Forecast (taken immediately after the Commerce Department's preliminary NIPA estimates are released in the 1st month of the quarter). This Economic Policy Survey was timed to coincide with the NABE Annual Meeting in Pittsburgh at the end of September.

Jay N. Woodworth
President, NABE
Vice-President &
Sr. Domestic Economist
Bankers Trust Company

Richard D. Rippe
Chairman, NABE Public Affairs
Committee, 1987-88
Senior Vice President and
Economist
Dean Witter Reynolds

The September 1988 policy questions focused upon the expected outcome of the November elections--and the possible policy shifts in Washington that will follow.

President George Bush?

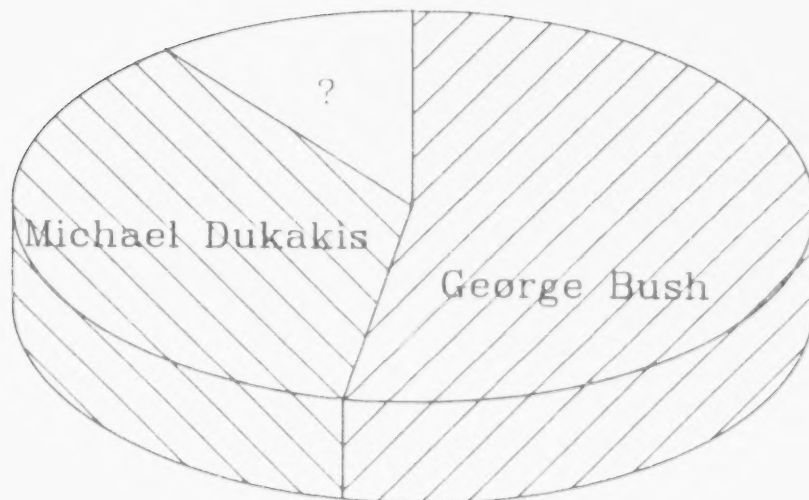
A surprisingly lopsided 53 percent of NABE's sizable public affairs panel (nearly 300 economists responding) expect George Bush to be elected as the next president, compared with only 36.6 percent for Michael Dukakis. (The remaining 10.5 percent were undecided.)

By an even wider margin of 61 percent to 22 percent, NABE's panel said George Bush's economic policy proposals "would be better for maintaining stable growth and moderate inflation in the years ahead." Only 17 percent said there was no real difference between the candidates' policies, which, given the relative absence of discussion to date in the campaign on budget-policy and other issues, is a rather low number.

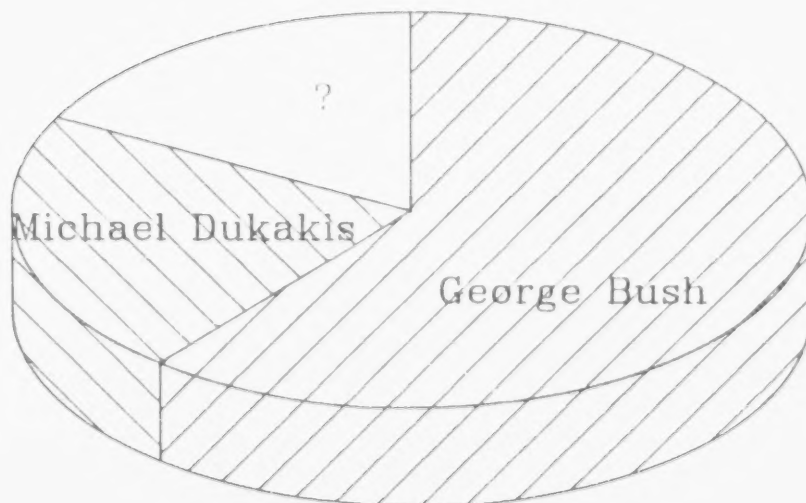
Budget Policy Has the Highest Priority

The panel was asked about economic policies and priorities in the next Administration, and NABE's traditional conservatism on budget policies and moderate activism elsewhere were again demonstrated. The survey results showed that, by far, the NABE members feel the highest priority is to make convincing, real, and significant progress during the next 4 years on reduction of the Federal budget deficits. (We pointedly did not attempt to quantify the desired amount of deficit-reduction that members would desire.)

The Next President?



Whose Economic Policy Proposals are Better?



*Economic Policy Priorities
for the Next Administration*

(in Descending Rank Order of Priority)

<u>Policy</u>	<u>Weighted Score*</u>
Budget Deficit-Reduction	4.262
Complete FTA with Canada	3.982
Launch policies to speed up	
Productivity Growth	3.712
Launch policies to Boost Personal Savings	3.570
Launch policies to	
Stimulate Business Investment	3.547
Pursue the Uruguay Round of the	
GATT Negotiations	3.482
Reform Glass-Steagall laws and related	
rules to permit bank entry into	
other financial industries	2.831
Reform Securities Laws & Rules so as	
prevent another market crash	2.570
Increase Anti-Trust Enforcement	2.509
Discourage Corporate Debt Accumulation	2.478
Curb Hostile Takeovers	2.229

* Based upon responses ranging from 1 = Unimportant to 5 = High Priority.

While deficit-reduction is given the most importance by NABE members, there is little confidence that it will in fact be accomplished by the next Administration and Congress. By a 3-to-1 margin, the members said there would not be a major budget package legislated during 1989.

The panel felt there would be no great difference (51 percent of the respondents) between a Bush and a Dukakis Administration as to whether a budget package would be adopted. Out of the remaining one-half, a slight plurality (28.5 percent, *versus* 20 percent) suggested Governor Dukakis would be more likely to succeed in adopting a budget package. This probably reflected the assumption that the Democrats are likely to maintain--perhaps even to increase--their majorities in both the House and the Senate irrespective of the outcome of the presidential contest. Presumably, Dukakis would fare somewhat better in working out a budget compromise with the Congressional leadership in his own party.

The Gramm-Rudman-Hollings "deficit-reduction" process has little remaining credibility, in the view of the NABE panel. Barring an accord between the White House and the Congress in 1989, only 30 percent of the panel said the GRH process would actually force the government to make expenditure cuts. Forty-eight percent said the GRH deficit targets would effectively be ignored, though the law would remain on the books. The remaining 22 percent thought the GRH law would (again) be amended or repealed if budget negotiations broke down and sequester orders were threatened.

Budget-Package Scorecard

(Composite Scores are based upon responses ranging from
1 = Highly Undesirable to 5 = Highly Important,
in Rank Order of "Economic Merit")

<u>Budget Initiative</u>	<u>Economic Merit Composite Score</u>	<u>Political Feasibility Composite Score</u>
Limit Agricultural Outlays	4.22	2.11
Cap COLAs in Entitlements	3.91	1.88
Cut Civilian-Gov't Payrolls	3.69	2.58
Hike cigarette & alcohol excise taxes	3.65	3.89
Cut S.D.I. spending	3.59	3.58
Cut other Pentagon procurement	3.54	3.44
Across-the-board Nondefense cuts	3.39	2.52
Cut Medicare Outlays	3.37	1.62
Raise Gasoline tax 20-30c/gallon	3.34	2.70
Institute a VAT	3.30	2.41
Cut Military Payrolls	3.04	2.60
Tax capital gains at death	2.97	2.80
Hike tax on Social Security benefits	2.95	1.86
Limit deduction for bus. meals & entertainment	2.95	3.51
Tax fringe benefits	2.92	2.43
Tax all consumer energy prod/services	2.88	2.38
Re-institute Oil-import fee	2.84	3.13
Limit mortgage-interest deduction	2.82	1.74
Impose Personal Income Tax Surcharge	2.49	2.55
Limit state/local tax deductions	2.48	2.01
Cut Military R&D	2.47	3.18
Cut Pentagon Operations/Maint.	2.26	2.86
Hike corporate tax rates	2.22	3.46

The bipartisan National Economic Commission, which is currently scheduled to make its recommendations around year-end, is viewed positively. (NABE members are decidedly more optimistic about the NEC efforts than the usual budget process in Washington.) Twenty-two percent of the NABE panel believe the NEC's suggestions are likely to influence the development of a plan. Another 41 percent think the NEC's role is more likely to push Congress and the Administration to act, rather than to affect the actual plan (though the arithmetic suggests Congress and the President will then drop the football).

We asked several generalized questions about the "best combination" of ingredients in a credible budget package--in the unlikely event, by our panel's own judgment, such a package is adopted. Seventy percent said the package should consist "entirely" or "mainly" of cuts in government spending programs. Another 21 percent said the package should have a balance of spending cuts and tax increases. Only 9 percent said there should "mainly" be tax increases. Just one person wanted to boost taxes (only).

When asked the "companion" question on what ingredients the Congress and President would be likely to put in a budget package, the results were greatly different from the preferences of the NABE panel. Only 25 percent thought Washington would be able to focus primarily upon reductions in Federal outlays; more than 70 percent thought we'd be much more likely to pay

higher taxes. Before panic sets in, though, remember that 75 percent of the panel expects no budget package to be developed next year.

Seventy percent of the panel thought the Federal Reserve would accommodate a real-world budget package. About one-quarter of the panel said the Fed should ease monetary policy when budget legislation is enacted, and one-half said the easing should occur when the provisions actually take effect (presumably, when the "fiscal drag" occurs). The other one-quarter thought the Fed should sit tight and alter monetary policy when and if the economic indicators warrant it.

If the NABE panel's pessimism on Washington's budget (in)action is correct, one-quarter of the panel thought the Fed would have to "tighten more than would normally be required" in 1989. Three-quarters of the panel believed the Fed should simply follow its usual procedures for conducting monetary policy--no special tightening should be performed.

Monetary Policy

At the beginning of the questionnaire's section on monetary policy, a table of money supply growth rates and Fed growth-rate targets was presented. Actual growth has been roughly in the middle of the Fed's target range. A series of questions was then asked about the panel's assessment of monetary policy. By 56-44 percent, the panel thought that recent money growth rates do provide a good measure of the thrust of monetary policy. Seventy-one percent felt that monetary policy was now "about right." Perhaps surprising, 23 percent believed policy was still *too stimulative*; only 6 percent felt the Fed had gone too far toward restraint.

About two-thirds of the panel expect that the Federal Reserve's conduct of monetary policy during the next 6 months will be chiefly guided by the rate of inflation and inflation expectations. Thirty percent felt the general pace of economic growth would be the chief guide. Over 3 percent believed the international value of the dollar would most influence policy. Less than 1 percent believed the growth rate of the money supply would provide the main guide.

By a lop-sided 74 percent, the panel thought that interest rates are headed higher during the next 6 months. (This verdict came in mid-September, following the sharp August run-up in interest rates, including the early-August hike in the Fed's discount rate.) Nearly one-half the panel thinks the Fed will raise the discount rate at least once during this period as part of a series of tightening moves. Another 28 percent expect the Fed to tighten reserve availability and encourage market rates to rise but will stop short of raising the discount rate (this is an election year). Twenty-two percent think the Fed will be able to remain "neutral" at current high levels. Only 4 percent think interest rates are headed down.

The overwhelming majority of the panel believes that the independence of the Federal Reserve will be preserved by both Messrs. Bush and Dukakis.

LDC Status and Policies

During the past year, we have regularly asked the Policy Panel for their perception of changes in the debt status of the less-developed countries during the past three months.

Changes in LDC Debt Status

	<u>Nov. 1987</u>	<u>Feb. 1988</u>	<u>May 1988</u>	<u>Sept. 1988</u>
<u>Responses of the NABE Panel (in Percent):</u>				
<i>Improved Debt Position</i>	10.0	13.9	13.1	22.6
<i>No Significant Change</i>	48.6	49.5	56.1	53.8
<i>Worsened Debt Position</i>	24.8	26.3	13.1	23.5

In the next several years, the panel thinks a more vigorous approach should be taken to work on the continuing LDC debt problems. While one-third believes current debt-management and economic policies should be continued, another 27 percent feel that more innovative financing techniques (e.g. the Mexican debt swaps done in March 1988) should be added to the list of the options. Nine percent believe the U.S. Government should assist the private-sector efforts with a partial forgiveness of the loans. One-quarter of the panel thinks *all the above* approaches should be undertaken. The NABE members believe the outcome of the presidential elections in the U.S. will probably lead to a continuation of Government policy--and attitudes of Bush and Dukakis toward the LDC debt problem are likely to be similar.

Why the Rebound in the Dollar?

Our two panels were asked a series of questions about the outlook in 1989 for the dollar, as well as why has it rebounded during the past 6 months? Most of the NABE Policy Panel members expect the dollar to remain around current levels through year-end 1988, which are some 9 percent above the December 1987 average. Only 1 percent expect a further, strong appreciation. More than one-third of the NABE members think the dollar has some downside risk, however, with 31 percent expecting the dollar to slide back to year-end 1987 levels, and 6 percent think the dollar will hit new lows.

For 1989, most of the panel members expect the dollar's 1985-87 downtrend to resume. One-quarter of the panel thinks the dollar may rise slightly further (up 5 to 15 percent), but about 55 percent believe the dollar will slip next year, with a large 32 percent expecting the currency to drop by 5 to 15 percent beyond year-end 1988 levels.

Reasons for the Dollar's Rebound

Responses of the NABE Panel (in Percent):

<u>Factor:</u>	<u>Large Impact</u>	<u>Small Impact</u>	<u>None or Perverse Impact</u>
<i>Higher interest rates in U.S.</i>	63.4	34.8	1.8
<i>Improvement in the trade deficit</i>	47.7	45.2	7.1
<i>Strong real economic growth rates in U.S. compared with others</i>	44.4	38.3	17.3
<i>Increased Japanese purchases of U.S. securities</i>	27.7	48.3	24.0
<i>Confidence in G-7 currency management</i>	8.7	45.6	45.6
<i>Signs that U.S. would enact Trade Bill</i>	4.2	36.0	59.8

Based upon data in the accompanying table on "Reasons for the Dollar's Rebound," NABE members give considerable weight to 3 factors to explain this summer's exchange-rate movements: higher U.S. interest rates, a noticeable turnaround in the merchandise trade deficit, and strong first-half 1988 real growth rates in the U.S. (especially in comparison with the slowing economies in Japan and most of Europe). The major step-up in net U.S. securities purchases by long-term institutional investors in Japan--probably to a new record, surpassing even the 1986 pace--is regarded as a major factor by only 28 percent of the panel. About one-half think the increased pace of securities' purchases is of small importance.

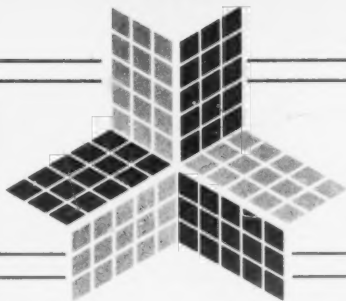
Just under one-half of the panel thinks the Group-of-Seven finance ministers and central bank heads can take credit for boosting the dollar through improved currency management actions and policies.

Interestingly, about 60 percent of the panel believe that the prospects for enactment of the Trade Bill this summer had a *perverse* impact on the value of the dollar. That is, without the passage of the Trade Bill, the dollar might have bounced up to still higher levels. This response by the panel is consistent with NABE's long-standing, free-market posture in trade policy matters.

Reducing Budget Deficits:

Economic 'Merit' vs. Political 'Feasibility'





NABE Policy Survey

December 5, 1988

Business Economists Want Action Taken to Reduce the Federal Budget Deficit and to Address the FSLIC Problem

This report presents the results of a survey on economic policy issues made by a panel of nearly 200 business economists in mid-November. The **Economic Policy Survey** is one of three surveys taken during each calendar quarter by NABE; the other surveys are the **Industry Survey** and **NABE Outlook**.

James F. Smith
Vice President, NABE
Professor of Finance
University of North Carolina
(919) 962-3176

David W. Berson
NABE Public Affairs Committee
Senior Economist
Fannie Mae
(202) 752-7143

The November 1988 policy questions were received by the policy panel shortly after the general election. The questions focused on what economic priorities the new Bush administration should have.

Survey Highlights

- * NABE's panel of business economists overwhelmingly indicated that reducing the Federal budget deficit should be the number one priority of the Bush administration. Some combination of higher taxes and lower spending received the greatest support.
- * President-elect Bush's proposal of a flexible freeze received only mixed support, with most panelists not ranking it as the most urgent priority.
- * Other methods of reducing the Federal budget deficit, such as a line item veto or a constitutional amendment to balance the budget, were viewed as being moderate to low priority items.
- * Also high on the priority list was a resolution to the FSLIC problem. Removing barriers for the buyers of insolvent thrifts and indexing thrift deposit insurance fees to the riskiness of loans and deposits were highest on the list of recommended solutions.

CUTTING THE BUDGET DEFICIT HAS THE HIGHEST PRIORITY

The panel was presented with 15 different policy actions that the new Bush administration could take, and was asked to rank each one in terms of urgency. The results showed that NABE members felt that reducing the Federal budget deficit through a combination of tax increases and spending cuts had the highest priority. The questions were worded so that there were four choices for cutting the budget deficit: (1) only raise taxes, (2) only cut spending, (3) raise taxes and cut spending, and (4) do not raise taxes and limit spending to the rate of inflation (the "flexible freeze"). The flexible freeze and reducing the deficit by only cutting spending also received some support. Interestingly, although the alternative of only cutting spending had more supporters than the flexible freeze (54 percent of respondents compared with 48 percent), it also had a significantly higher number who ranked it as the lowest priority (46 percent versus 26 percent).

Economic Policy Priorities for the Bush Administration (in Descending Rank Order of Priority)

Policy	Weighted Score
Budget deficit reduction through lower spending and higher taxes	3.90
Address the FSLIC problem	3.84
Budget deficit reduction through the flexible freeze	3.34
Reform the budget process	3.29
Lower the trade deficit	3.23
Budget deficit reduction only through lower spending	3.12
Legislation for a line-item veto	3.05
Address the third-world debt problem	2.93
Lower the marginal tax rate on capital gains	2.49
Legislation for general tax reform	2.40
Increase regulation of mergers and acquisitions and leveraged buyout activities	2.34
Legislation for new housing programs for the homeless and low-income families	2.31
Seek a balanced budget amendment to the Constitution	2.13
Budget deficit reduction only through higher taxes	1.75
Move to a fixed exchange rate system	1.40

Based upon responses ranging from 1=Least Urgent to 5=Most Urgent

The panel responses can be put into four main groups. The group with the highest scores had only cutting the deficit through a combination of tax increases and spending cuts and addressing the FSLIC problem as elements. Only the deficit cutting measure, however, had a median response of highest priority -- with over 50 percent of respondents placing it in the highest priority category.

The second group of priorities includes all of those with scores between 3.34 and 2.93. This group of six items included four that were aimed, either directly or indirectly, at cutting the budget deficit. In addition to the flexible freeze, they included cutting the deficit only through spending cuts, reforming the budget process, and providing the President with a line-item veto. Clearly, cutting the budget deficit was of paramount importance to the NABE panel. Lowering the trade deficit and addressing the third-world debt problem were also in this upper middle group.

The third group included a broad array of proposals that each received some support as a second, third, or fourth priority item. However, each of these programs also had a large number of respondents who ranked it as a lowest priority. These programs included the two tax change proposals, increased regulation for M&A activities, legislation for the homeless, and, perhaps surprisingly given the strong sentiment to reduce the budget deficit, the balanced budget amendment.

The bottom group of programs were clearly at the tail end of most of the respondent's lists. Nearly 60 percent of respondents listed lowering the budget deficit only through raising taxes in the lowest priority category, while more than 77 percent put a return to fixed exchange rates in there as well.

Monetary Policy

More than 80 percent of the NABE panel felt that in light of recent money growth rates, recent reserves growth rates, and the recent level of the federal funds rate that monetary policy was now "about right". About 12 percent found recent policy too restrictive, while the remaining 7 percent found it too stimulative. This is in contrast to the survey of two month's before which found 23 percent feeling that policy was too stimulative at that time and 6 percent labeling policy as too restrictive. Also in contrast to the last policy survey, only 32 percent thought that recent money growth rates were a good measure of the thrust of monetary policy, compared to 56 percent in September. Nearly 51 percent now find the level of the federal funds rate to be a good measure of monetary policy.

Nearly one half of the panel expects that Federal Reserve monetary policy will be influenced most by inflation and inflation expectations over the next six months. A sizable group of about 30 percent thinks that the pace of economic expansion will dictate the Fed's policy over that period. About 16 percent believes that the exchange value of the dollar will most influence monetary policy. Only 1.6 percent thinks that the Fed still has any monetarist leanings, expecting the Fed to react to the rate of money stock growth.

Over 60 percent of the panel felt that the Fed would be tightening monetary policy over the next six months. They disagreed, however, on the strength of that tightening, with slightly more than half of that group feeling that the Fed would push up the federal funds rate but not raise the discount rate. The other half of this group believed that the Fed will be more severe in its tightening, expecting that the Fed will raise the discount rate one or more times in addition to pushing up the federal funds rate. About one quarter of the respondents felt that the Fed would leave policy basically unchanged over the next six months, while a very small minority thought that the Fed would actually ease policy over that time.

The last question on monetary policy asked the panel what the Fed should be concentrating on in its conduct of policy. Since the respondents were allowed to choose more than one indicator, there were several that scored highly. Three of the indicators gained more than half of the panel's support: recent inflation movements (65.6 percent), growth in real GNP (60.6 percent), and recent movements in the dollar (52.8 percent). The federal funds rate drew moderate support, with more than 45 percent of the panel favoring it. The monetary aggregates drew only modest support, with nearly 37 percent favoring targeting M2 growth, about 28 percent favoring targeting M3 growth, 26 percent in favor of targeting monetary base growth, and only about 18 percent favoring targeting M1. Other possible targets that have been in the news lately did not have strong support -- the shape of the yield curve had support from only 24 percent of the panel and recent commodity price movements gained backing from only 19 percent.

The FSLIC Problem

The NABE panel felt that the problem with FSLIC is a serious one, but the respondents differed on the urgency of rescuing FSLIC. Only 28 percent of the panel responded that regardless of the cost it was very urgent that FSLIC be rescued. About 30 percent shared the urgency of that first group, but only if there were little or no budget impact. The largest group of respondents replied that the problem was important, but not something to rush into. The overwhelming conviction by the panel members that the Federal budget deficit was the nation's first priority appears to have had a major impact on their responses to the FSLIC problem. Virtually the entire panel felt that the problem was either important or urgent, but nearly 70 percent either wanted no budget impact or more study.

The panel was given thirteen possible ways in which to deal with the FSLIC problem, and they were asked to rank each proposal from least to most favorable. There was one clear favorite among the proposals, and several other recommendations rated highly. Indexing thrift deposit insurance fees to the riskiness of loans and deposits was the only proposal to generate more than half the responses in the most favored category, resulting in an average score of 4.09 (on a scale of 5 for most favorable and 1 for least favorable). This proposal would reduce the moral hazard problem resulting from the current system of uniform deposit insurance rates regardless of asset risk. Also ranking highly were removing barriers for prospective purchasers of thrifts -- especially for insolvent thrifts -- and mandating that thrifts must price assets at market value.

**Recommendations for Solving
the FSLIC Problem
(in Descending Rank Order of Priority)**

<u>Recommendation</u>	<u>Weighted Score</u>
Index thrift deposit insurance fees to the riskiness of loans and deposits	4.09
Remove barriers for buyers of insolvent thrifts	3.85
Force thrifts to price assets at market value	3.53
Remove barriers for buyers of any thrifts	3.36
Prohibit, or severely limit, the ability of insolvent thrifts to compete for assets with healthy thrifts	3.13
Give explicit government backing to the debt market instruments of FSLIC	2.80
Prohibit, or severely limit, brokered deposits	2.62
Merge the FSLIC and FDIC insurance funds	2.41
Sell the assets of Freddie Mac and use the proceeds to refinance FSLIC	2.29
Use general revenue funds to refinance FSLIC	2.17
Place an excise tax on junk bonds and use the proceeds to refinance FSLIC	2.08
Pay interest on deposits at the Fed by depository institutions and use the proceeds to refinance FSLIC	2.05
Increase the special levy on solvent thrifts	1.92

Based upon responses ranging from 1=Least to 5=Most Favorable

Despite the importance that the panel placed on solving the FSLIC problem, the results clearly showed that any solution that involved raising the Federal budget deficit would have a very low priority. Nearly 45 percent of the panel gave the least favorable response when asked if general revenue funds should be used to refinance FSLIC. And even giving explicit government backing to FSLIC's debt -- which would only result in a charge to the government in the case of FSLIC's default -- was only modestly favorable to the respondents (with a mean score of 2.80 but with nearly 25 percent of the panel putting it in the least favorable category). The lowest scoring proposal in the group was for increasing the special levy on solvent thrifts in order to refinance FSLIC. Nearly 50 percent of the respondents put this in the least favorable category.

Trade and the Dollar

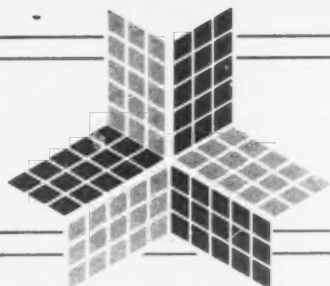
The final section of questions was on the trade deficit and forecasts of the exchange value of the dollar. In the time between when the questions were written and the responses received, the dollar fell significantly. This may help explain why 60 percent of the panel felt that the dollar would be little changed (within five percent of its December 1987 value) at the end of 1988 despite being 7.2 percent higher at the end of October. The remaining 40 percent were fairly evenly split between those who thought that the dollar would fall by more than 5 percent (24 percent of respondents) and those who felt that the dollar would rise by more than 5 percent (16 percent).

When asked what the equilibrium value of the dollar would be at the end of the year (presumably the exchange rate that would occur if all central bank intervention were eliminated), more than half of the panel felt that it was between 5 and 20 percent below current levels (those in mid-November). Twenty seven percent of the panelists felt that the equilibrium value of the dollar was within 5 percentage points of its current level, and about 13 percent thought that the equilibrium value was more than 5 percent above current levels.

The forecasts for the change in the dollar in 1989 corresponded very well with the responses for the equilibrium value of the dollar at the end of 1988. Presumably this reflects the NABE panel's belief that over the longer run forces in the international economy would push the dollar towards its equilibrium value. Nearly 57 percent saw the dollar between 5 and 15 percent lower at the end of 1989, while about 24 percent felt that it would be nearly unchanged. A little more than 14 percent predicted that the dollar would rise more than 5 percent next year.

The final two questions were on the causes and solutions for the merchandise trade deficit. A plurality of the respondents, 37 percent, felt that the Federal budget deficit was the primary cause of the trade deficit. The next most popular response, 20 percent, was that a better investment climate and opportunities in the U.S. compared to those opportunities abroad caused the deficit. Relatively faster economic growth in the U.S., relatively higher real interest rates in the U.S., and unfair trading practices abroad had successively fewer responses. Interestingly, this question was the only one in the survey that generated a substantial response to "other", with 19 percent of the panel members feeling that the trade deficit was primarily caused by some reason other than the choices presented.

In finding the best way to eliminate the trade deficit, the clear favorite was to cut the Federal budget deficit, with more than 41 percent of the panel choosing it. Encouraging a further drop in the dollar -- presumably through "jaw boning" or central bank intervention -- was the choice of nearly 21 percent of the NABE panel. Further expansion of free trade through the Uruguay round of GATT negotiations was favored by 18 percent of the respondents. None of the other choices received significant support, with only 1 respondent choosing to unilaterally restrict foreign imports.



NABE Policy Survey

*Business Economists Feel Federal Budget Deficits Will Remain Large;
Favor Restoration of a Lower Capital Gains Tax;
Are Worried about LBO-Generated Debt*

March 1989

This report presents the results of a survey on economic policy issues made by nearly 300 business economists in late-January and early-February 1989. The **Economic Policy Survey** is one of three surveys taken during each calendar quarter by NABE; the other surveys are the **Industrial Outlook** and the **Macroeconomic Forecast**. The release of this survey was timed to coincide with NABE's Economic Policy Seminar in Washington, D.C., on February 27-28, 1989.

Jay N. Woodworth
President, NABE
Vice-President &
Sr. Domestic Economist
Bankers Trust Company

David W. Berson
Director, Economic Policy Panel
NABE Public Affairs Committee
Chief Economist
Fannie Mae

Highlights from the February Survey

- * The NABE panel overwhelmingly supports the objective of reducing Federal budget deficits. The business economists generally think the Gramm-Rudman-Hollings numerical targets are appropriate--but Washington policymakers will continue to be incapable of attaining the goals without tough, new actions. Most of the panel members would advocate reductions in Federal spending, and they propose a list of selective budget cuts. (Only some 15 percent would prefer an emphasis on increasing Federal revenues.)
- * More than three-quarters of the business economists believe the Federal Reserve is focusing chiefly on the current inflation problem as the target of monetary policy. Given the expectations for a further run-up in inflation during 1989, 70 percent of the panel expects the Fed to boost interest rates further in the next 6 months. Eighty-one percent of the panel agrees with Fed policy.

- * By a 79-21 margin, the NABE panel believes President Bush's proposal to reduce the capital gains tax rate to 15 percent would improve capital formation. Beyond the first year, a narrow majority of the panel thinks Federal tax receipts would actually be raised through such a tax-law change. A 53-29 percent majority would favor making such a change in capital gains tax treatment irrespective of the group's concern about huge Federal budget deficits.
- * The panel was asked more than two dozen specific questions about corporate restructurings, leveraged buy-outs, and mergers and acquisitions in terms of their risk, debt-burdens, economic efficiency and concentration of economic power. Perhaps surprisingly, the business economists are "cool" toward corporate restructurings in general (and LBOs in particular). They would not, however, advocate any actions to limit or restrict the process of restructuring. There is strong agreement that many corporate restructurings ultimately stem from imbalances in the tax laws, including the tax deductibility of corporate interest expense and the nondeductibility of dividend payments. The panel is concerned about the build-up of LBO-related corporate debt and the heightened degree of risk in a renewed recession.

Budget Policy

The NABE panel of business economists expects the Federal budget deficit for the 1990 fiscal year to be about \$135 billion, a sizable improvement from the \$170 billion estimated for the current fiscal year but well above the Gramm-Rudman-Hollings (GRH) deficit-reduction target. OMB Director Richard Darman was given about one chance in three of negotiating a successful deficit-reduction compromise with the Congress within the next several months.

Only two-thirds of the panel said the GRH targets are "appropriate"--many in the remaining one-third worry that attainment of the GRH targets, however unlikely this seems, would produce too much "fiscal drag" and slow the economy. But 94 percent of the panel said that additional action should be undertaken to lower the path of future budget deficits. A majority of the business economists would prefer to achieve a reduction of the budget deficit of \$21 to 30 billion per year. (Implied here is a longer timetable for deficit-reduction than the GRH process. Depending upon the starting point, it might take 5 or 6 years to get close to a balanced budget, compared with the GRH timetable of 4 more years.)

When asked, "How should deficit reduction be accomplished," an overwhelming 76 percent responded that mostly reductions in Federal outlays should be utilized. About one-half favored a package that would also boost revenues. Only 15 percent would rely chiefly on revenue increases.

When asked for further elaboration of their preferred spending cuts, a majority of the panel would attack farm subsidies (and other farm income stabilization programs) and defense spending (especially, procurement). Forty-seven percent would trim the cost-of-living adjustments (COLAs) in the Social Security program. At the other end of the spectrum, the least-favored areas for spending cuts were on education, space and science programs, justice, natural resources and the environment, and housing, food and nutrition assistance. (See Table 1 below for the complete listing of the panel's responses.)

Table 1

Business Economists' Favorite Spending Cuts

*(Percent of NABE Panel Members Favoring Reductions in Federal Spending Programs, in Descending Order of Popularity, Dollar amounts are actual FY1988 Outlays, in billions
* Denotes a Total or Subtotal of Spending Categories)*

Cut expenditures on farm income stabilization (\$17.2)	72 Percent
Cut defense procurement (\$77.2)	55
*Cut defense spending across-the-board (\$290.4)	52
Cut Social Security COLA (about \$6 billion)	47
*Cut domestic programs across-the-board (\$647.2)	41
Cut medicare expenditures (\$78.9)	38
Cut foreign aid, fgn. affairs, int'l finan. prog. (\$10.5)	35
Cut commerce and housing credits (e.g., FHA, Postal Service, FSLIC (\$18.8)	32
Cut misc. defense spending (e.g., mil.construction;\$17.6)	31
Cut "general government" (e.g., operating, payroll; \$9.5)	31
Cut non-Social Security retirement & disability (\$52.2)	29
Cut Social Security outlays (\$219.3)	29
Cut other health care (e.g., medicaid) (\$44.5)	29
Cut defense outlays on personnel (\$76.3)	28
Cut community & regional development (\$5.3)	25
Cut Veterans programs (\$29.4)	24
Cut transportation programs (\$27.3)	23
Cut energy & conservation programs (\$2.3)	22
*Cut all noninterest expenditures (\$937.6)	22
Cut defense R&D (\$34.8)	21
Cut defense operations & maintenance (\$84.5)	18
Cut expenditures on social services (\$8.0)	18
Cut other income security programs (e.g., SSI) (\$27.9)	16
Cut unemployment compensation (\$15.3)	15
Cut other training, employment, labor services (\$6.0)	11
Cut assistance for housing, food, & nutrition (\$34.0)	10
Cut natural resources & environment (\$14.6)	9
Cut expenditures for justice administration (\$9.2)	8
Cut space & science programs (\$10.8)	7
Cut education expenditures (\$16.7)	4

Among those who advocated raising revenues, usually in a package with spending cuts, by far the preferred route was an increase in gasoline excise taxes, with 71 percent favoring this option. A 51 percent majority advocated an increase in user fees (e.g., entry fees to national parks). About one-third of those favoring revenue hikes would advocate a broader-based tax on all consumer energy products and services. Thirty-one percent would introduce a value-added tax (though we did not ask for amounts or trade-offs). Only 30 percent would raise the top personal income tax bracket to a marginal rate of 33 percent, as has been proposed in the Congress. Far down the list of preferences was a general increase in personal or corporate income taxes.

Monetary Policy

The Fed's conduct of monetary policy was solidly endorsed by the NABE policy panel. Seventy-seven percent said the current thrust of monetary policy was "about right," 13 percent worried that it might be too tight, and 8 percent felt it was too easy. About 60 percent thought the best indicator of monetary policy at present was the interest rate on Federal funds, with 29 percent thinking it was the growth rate on one of the measures of the money supply.

About two-thirds of the panel believes that monetary policy will be chiefly guided in the next 6 months by the rate of inflation (and inflation expectations). Another 24 percent thought it would be the pace of real economic growth.

Seventy percent of the NABE panel expect the Fed to boost interest rates still further in the coming 6 months. Another 22 percent think rates will remain flat at their current highs. Only 8 percent think rates will decline.

Longer term, a majority of the business economists think that the primary goal of monetary policy should be the attainment and maintenance of price stability. The runner-up in the survey was "maintaining (real) economic growth." Although business economists recognize that the goals of price stability and economic growth are usually complementary, there are times when they are competitive; for the majority of business economists, the current period appears to be such a time.

Capital Gains Taxes

President Bush has frequently advocated a reduction in capital gains tax rates. He received a modest endorsement from this group of business economists.

We raised 4 questions on this subject with our panel. Would Federal tax receipts be reduced in the first year of a reduction in capital gains taxes to a 15 percent rate? About one-third said, "No, Federal receipts would be raised," as Mr. Bush and some Treasury studies have suggested. About 56 percent said, "Yes, they would

decline." Eleven percent said there would be essentially no net change.

Beyond the first year, though, 47 percent thought a reduction in capital gains tax rates would boost Federal tax receipts, compared with 41 percent who thought receipts would decline. Twelve percent said there would be no net change.

Almost 80 percent felt such a tax-rate reduction would encourage capital formation, but 20 percent said there would be little net change (presumably after taking into account the possible reduction in Federal tax receipts).

Irrespective of the deficit impact, 53 percent of the panel said a reduction in the tax rate on capital gains would be "appropriate," compared with 29 percent saying "No" and 18 percent who were unsure.

Corporate Restructurings/LBOs/Mergers & Acquisitions

With the heightened concern in the media and in Washington about the role and impact of corporate restructurings--especially leveraged buy-outs (LBOs)--we asked a special set of questions of the NABE economic policy panel. There were some surprises in the results:

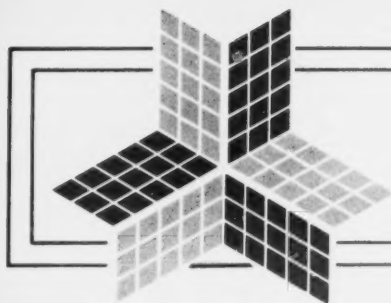
- o Business economists are taking at best a "lukewarm" attitude toward the role, scope, and side-effects of corporate restructurings.
- o Survey results show a "neutral" attitude toward the economic usefulness (that is, improving economic efficiencies and enhancing return on capital) of recent restructurings.
- o The business economists are concerned that the "total social costs" (e.g., cost to bondholders, employees, suppliers, customers, etc.) of corporate restructurings may have exceeded such positive characteristics as higher stock prices.
- o The NABE panel does not draw a significant distinction (in terms of their actual experience) between LBOs and mergers or acquisitions.
- o But the NABE panel decidedly does not want the government to restrict or restrain restructurings (e.g., through a government review of "hostile" takeovers). The panel agrees solidly with the statement that financial restructurings of corporations should be uninhibited by government, except for the appropriate investigation and prosecution of violations of antitrust or securities laws.

- o There is major agreement--the strongest reaction to any of our special questions--that corporate tax laws should be changed to bring into better balance the tax treatment of dividends and interest payments and thereby encourage equity capital formation.
- o There has been insufficient application of Federal antitrust laws in recent years, but the panel finds there has not been an excessive concentration of market power in selected U.S. industries as a direct result of mergers or acquisitions.

NABE's panel of business economists is concerned about the decapitalization of American industry during the decade of the 1980s and the buildup of corporate debt. The panel "tends to agree" that the Fed's conduct of monetary policy would be potentially destabilized by the additional debt resulting from LBOs. In the event of a recession, the economists agree "quite strongly" that the high corporate debt levels will "probably aggravate" the slide in the economy.

The business economists quite strongly regard LBO-generated debt as being riskier than corporate debt generally. Therefore, the panel would agree with an increase in capital requirements for financial institutions providing financing for LBOs. The panel also would not permit government-insured deposits to be invested in loans or "junk bonds" that are issued as a result of LBOs or corporate takeovers.

NABE's panel expresses moderate concern over the potential abuses of inside information in the process of financial restructurings. Surprisingly, the group would support the concept of a required outside inquiry whenever management of a publicly-held company bids for ownership control to determine whether there has been adequate disclosure of relevant information to shareholders. The panel would also support delaying management bids for ownership control for, say, 90 days in order to permit disclosure of information and to permit other bidders to compete for ownership of the firm's shares. Similarly, the panel would not permit securities firms to underwrite securities in a company in which they have a direct (loan or equity) position in the company.



NABE Policy Survey

BUSINESS ECONOMISTS EXPECT 1990 BUDGET TARGET WILL NOT BE MET;
ARE SATISFIED WITH FEDERAL RESERVE POLICY ACTIONS;
FEEL THE THRIFT RESCUE BILL SHOULD BE ON BUDGET

June 1989

*This report presents the results of a survey on economic policy issues made by nearly 300 business economists in early-June 1989. The **Economic Policy Survey** is one of three surveys taken during each calendar quarter by NABE; the other surveys are the **Industry Survey** and the **NABE Outlook**.*

James F. Smith
Vice President, NABE
Professor of Finance
University of North Carolina
(919) 962-3176

David W. Berson
Director, NABE Policy Panel
V.P. & Chief Economist
Fannie Mae
(202) 752-7143

Highlights from the June Survey

- * The NABE panel overwhelmingly expected that the actual federal budget deficit for 1990 will be above the Gramm-Rudman-Hollings target of \$99 billion. The average estimate of the 1990 budget deficit by the panel members was \$129 billion. The panel had a sizable majority in favor of freezing military expenditures, while a significant fraction felt that military spending should be reduced. Most of the panel also felt that tax increases were an appropriate step in reducing the budget deficit, with most respondents advocating larger increases than the \$5.3 billion in the House and Senate budget resolutions.
- * The NABE panel continued to believe that the Federal Reserve is carrying out the correct monetary policy, although a larger fraction than in previous surveys felt that the Fed was being too restrictive. Given the expectations of slower economic growth for 1989, most of the panel expected the Fed to either keep monetary policy relatively unchanged or to ease policy modestly.

- * Nearly two-thirds of the panel felt that the cost of the FSLIC rescue bill should be on budget, with the resulting debt being issued by the Treasury Department rather than an off-budget agency. In addition, a majority of the NABE panel felt that the cost of the rescue plan should count against the Gramm-Rudman-Hollings deficit targets. A significant majority of the panel believed that the thrift industry should be restructured in major ways, including: having thrifts pay for a portion of the costs of the plan through higher deposit insurance rates, imposing risk-based capital guidelines on thrifts, and separating the regulatory and credit functions of the Federal Home Loan Bank Board.

1990 Budget Deficit and Budget Policy

The NABE policy panel had grave doubts that the 1990 federal budget deficit will fall within the Gramm-Rudman-Hollings limits, with only 8 percent of the respondents expecting the deficit to be less than or equal to the \$99 billion target. The average forecast by the panel for the deficit was \$129 billion, close to the median estimate of \$127 billion.

Looking at the House and Senate budget resolutions, the NABE panel felt strongly that military spending should not be increased, as nearly 65 percent of the respondents agreed with the freeze on military expenditures contained in the budget resolutions. Another 29 percent felt that military spending should be cut. Not all spending categories should be subject to freezes or reductions according to the panel, however, as about two-thirds of the business economists felt that the increases in education, science, and space programs in the budget resolutions were justified or that they should be increased by even more than the resolutions called for.

In comparing the budget resolutions, more of the panel favored the Senate proposal -- which called for more spending on law enforcement and transportation programs -- than the House proposal -- which called for more spending on veteran's programs, aid to the poor, and spending on retirees. Even the Senate version gained the support of only 44 percent of the panel, though, with nearly one-third favoring either freezes or cuts in all of these areas. Both budget resolutions contained asset sales as a mechanism for reducing the deficit, but only 18 percent of the NABE panel felt that this was an unambiguously appropriate way to cut the deficit. Another 37 percent felt that asset sales were sometimes an appropriate way to cut the deficit, while a plurality of respondents, 45 percent, felt that asset sales were never an appropriate means of cutting the budget deficit.

When asked, "Should taxes be increased as a way to cut the budget deficit," 64 percent of the panel responded affirmatively, and of those an overwhelming 87 percent felt that taxes should be raised by more than the \$5.3 billion called for in the budget resolutions.

Interestingly, in light of President Bush's recent major speech on the environment, about 70 percent of the respondents agreed with the auctioning of pollution rights concerning chlorofluorocarbons -- with 53 percent arguing for expansion of this program so that the "economically correct" level of pollutants would be produced. Finally, 80 percent of the NABE panel agreed with the House version's change in the tax laws so that the FDIC would include foreign deposits in U.S. banks when calculating deposit insurance premiums.

Monetary Policy

The respondents in the NABE policy survey strongly continue to favor the thrust of Federal Reserve monetary policy. Seventy-four percent said that the policy was "about right". A growing portion, however, felt that the Fed was being too restrictive in its conduct of monetary policy. Over the past year, covering four policy surveys, the percentage that felt that the Fed was being too tight has increased steadily from 6 percent at the end of the third quarter of 1988 to 23.5 percent in the most recent survey. Over the same span, the portion of the panel that felt that the Fed has been too easy has declined to an almost invisible 2.4 percent. Continuing the trend of recent surveys, somewhat less than 60 percent of the respondents felt that the level of the federal funds rate was the best indicator of the current direction of monetary policy, while about 30 percent felt that recent money growth rates were the best indicator. These percentages have changed very little over the past year.

About 63 percent of the panel believed that monetary policy will be chiefly guided in the next 6 months by the rate of inflation (and inflation expectations). Another 26 percent thought that the pace of economic growth would be the primary determinant of policy. Despite the sharp rise in the value of the dollar through the survey period, only 8 percent of the panel thought that the Fed would be led primarily by exchange rates in the setting of monetary policy.

In contrast to policy surveys over the past year, a majority of the panel felt that the Fed would either keep monetary policy relatively unchanged or would ease by enough to cause the federal funds rate to drop. The largest group of respondents thought that the Fed would keep policy unchanged, nearly 40 percent, while the next largest group, about one-third, thought that the Fed would ease a bit. The degree of easing expected by this group was small, however, with only about 9 percent of the panel expecting a significant enough policy change to cause the discount rate to be cut. Respondents in previous surveys felt strongly that the Fed would be moving to tighten monetary policy, in line with expectations of higher inflation in the winter and spring. The most recent NABE Macroeconomic Survey, however, indicated that most business economists expect slower economic growth and lower inflation over the second half of this year. The policy survey result that monetary policy is unlikely to be tightened over the next 6 months is consistent with this expectation of slower growth and inflation.

The FSLIC Bailout Bill

One of the major differences between many in Congress and the Bush Administration on the FSLIC bailout bill is whether the bonds to finance the payout should come directly from the Treasury Department, or whether they should come from an off-budget agency such as the proposed Refcorp. The respondents in the NABE policy survey felt strongly that the bonds should be issued directly by Treasury, with nearly 64 percent favoring direct financing. Only about 21 percent thought that Refcorp financing would be appropriate. Another 15 percent felt that the funding mechanism did not matter.

The House bill proposes that direct Treasury financing not count against the Gramm-Rudman-Hollings deficit targets. The NABE policy panel, however, felt that the cost of such financing should count against the deficit targets, with 57 percent favoring this accounting. About 30 percent agreed with the House that the cost of the Treasury financing should not count against the Gramm-Rudman-Hollings targets, while another 13 percent felt that it did not matter.



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The panel agreed with many other portions of the House and Senate bills. An overwhelming 96 percent of the respondents felt that risk-based capital guidelines should be imposed on thrifts as part of the FSLIC bailout proposal. Of those that agreed with this proposition, more than 81 percent thought that the guidelines should be the same as those that commercial banks are subject to. Only 13 percent thought that thrifts should be subject to more stringent risk-based capital guidelines than banks, and a mere 5 percent thought that thrifts should be subject to less stringent guidelines.

Nearly 73 percent of the panel felt that thrifts should pay for some portion of the bailout plan through higher deposit insurance rates. More than 25 percent, however, felt that it would not be appropriate for thrifts to be forced to pay higher deposit insurance rates. About two-thirds of the panel thought that the regulatory and credit functions of the Federal Home Loan Bank Board should be divided, as is currently the case for commercial banks with the FDIC and the Comptroller of the Currency. Nearly 24 percent thought that such a division should not take place. There was only a small majority of the panelists, however, who thought that commercial banks should be allowed to take advances from regional Federal Home Loan Banks as long as they qualified under the "qualified thrift lender" rules.

The NABE policy panel felt strongly that portions of the bill that do not have direct applicability to the bailout should be excluded. In particular, nearly two-thirds of the respondents thought that the measure authorizing the regional Federal Home Loan banks to subsidize interest rates for member institutions to dedicate to low- and moderate-income housing should not be part of the bailout bill. About 21 percent of the panel thought that it was appropriate to include such a provision. Similarly, nearly 66 percent of the panel thought that a measure that would guarantee local housing agencies the right of uncontested bids for certain low cost residential properties seized from failed thrifts should not be a part of the bailout bill, while about 26 percent favored the inclusion of this provision.